Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Santak Holdings Limited

Security: Santak Holdings Limited

Meeting details:
Date: 29 October 2018
Time: 2.30 p.m.
Venue: 31 Senoko South Road, Woodlands East Industrial Estate, Singapore 758084

Company Description

Santak Holdings Limited, an investment holding company, manufactures and trades in precision engineering and assembly products. The company's Precision Engineering and Assembly segment manufactures precision machined components and sub-assembly products for multi-national companies and other contract manufacturers. This segment's products are primarily used in hard-disk drives, fibre-optics connectors, consumer electronic devices, telecommunication devices, mobile phones, optical instrument devices, medical equipment, connectors/contacts, and computer peripherals. Its Trading and Distribution segment engages in sourcing and supplying custom-made electronic, electrical, and mechanical components/products. This segment offers die-cast and machined parts, metal enclosures and stamped parts, heatsinks, solenoids, coils, contactless smartcards, and OEM assembly of card readers. This segment also supplies customized electro-mechanical and mechanical assemblies, metal enclosures and sheet metal parts, aluminum and copper heat sinks, card readers, wire harnessing, solenoids and coils, power supplies, and special material PCBs, as well as thermoplastic/BMC/insert molding products. The company operates in Singapore and other ASEAN countries, North Asia, the United States, Europe, and internationally. Santak Holdings Limited was founded in 1978 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=580)

1. Revenue for the continuing operations amounted to $13.6 million, following the disposal of the Wuxi subsidiary, and the group achieved a gross profit was $1.35 million.

	Note	2018 $	2017 $
Continuing operations			
Revenue	3	13,582,453	26,929,824
Cost of sales		(12,231,158)	(25,556,273)
Gross profit		$\boxed{1,351,295}$	1,373,551
Other operating income	4	75,268	111,651
Distribution and selling expenses		$\boxed{(1,274,254)}$	(1,467,329)
Administrative expenses		$\boxed{(1,623,432)}$	(2,078,678)
Other operating expenses	4	(214,740)	(30,718)
Finance costs	5	(13,831)	(1,091,174)
Finance income	5	6,026	38,364
Loss before tax from continuing operations	6	(1,693,668)	(3,144,333)
Taxation	7	(9,890)	506,969
Loss from continuing operations, net of taxation		(1,703,558)	(2,637,364)
Discontinued operation			
Profit from discontinued operation, net of taxation	8	–	3,440,468
(Loss)/profit for the year		(1,703,558)	803,104

(Source: Company annual report; emphasis added)

Distribution and selling expenses and Administrative expenses were reduced, but not sufficient to keep the group profitable. In fact, the group's administrative expenses of $1.623 million alone would be higher than the gross profit for the year.

In Note 28 (page 81 – Operating segments), the Precision engineering and assembly segment generated revenue of $9.3 million and the segment loss was $(2.00) million.

(i) **Would management help shareholders understand the major products that contributed to the segment revenue of $9.3 million?**

(ii) **Who are the major customers? What industries/sectors are they in?**

(iii) **What is the utilisation rate of the group's Senoko site? Is the efficiency affected by the plans to shift the manufacturing to Johor?**

(iv) **Can management elaborate further the key priorities for the segment in FY2019? Please include details on how it intends to make the segment profitable.**

(v) **What is the estimated break-even level at Senoko/new site in Johor?**

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2. Following the sale of Santak Wuxi, the group received gross proceeds of $27.7 million and ended the last financial year with $9.68 million in cash and cash equivalents.

In this financial year, the group experienced cash out flow due to operating activities of $(2.06) million mainly due to losses and the increased working capital; and net cash out flow due to investing activities (for the new site in Johor).

As at 30 June 2018, cash and cash equivalents decreased by $(2.6) million, slipping to $7.05 million. The group's cash hoard can be further boosted if/when the Senoko property is sold.

With cash and cash equivalents of just $7.05 million, it is critical for management to invest it prudently to generate long term sustainable value for shareholders.

(i) Did the board carry out a strategic review of the group to assess the core competencies of the group and its board, its management team and its financial strength and to fine-tune its strategic plan so as to create long-term sustainable value for all shareholders?

(ii) Does the group have a sustainable business in the precision engineering and assembly segment given its expertise, scale and the market trends?

(iii) What is the total capital investment needed for the Johor site? How did the group determine the scale needed for the new site? When will the new site be ready?

(iv) What assurance can management give to shareholders that the segment remains viable and that the group can leverage the new manufacturing site to grow the business on a sustainable basis to generate shareholder value?

3. The company has stated that the nominating committee (NC) has conducted a rigorous review of the independence of the long tenured independent directors, namely Mr Lee Keen Whye and Mr Ch'ng Jit Koon, and determined that they have maintained their independence after considering the recommendations set out in the 2012 Code of Corporate Governance. The company has also stated that it will, on a continual basis, review the need for progressive refreshing of its board.

(i) Given the changes in the industry and the corporate restructuring being carried out by the group, has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

(ii) Has the board considered the value that an independent director with experience in manufacturing, restructuring and/or precision engineering can bring to the board and to the group?

Further, in August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 Code"). As a consequence of the revised 2018 Code, the

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Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

(iii) Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the board?

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Santak%20Holdings%20Ltd

The company's response could be found here:

https://sias.org.sg/media/qareport/Santak%20Reply%20SIAS%20Query%202017.pdf